

# **CORRECTED FISCAL NOTE**

## **HB 1572 - SB 1951**

March 28, 2007

**SUMMARY OF BILL:** Changes the tax rate on moist snuff tobacco from 6.6% of the wholesale price to 25 cents per ounce of each can or package.

### **ESTIMATED FISCAL IMPACT:**

On March 12, 2007, we issued a fiscal note on this bill indicating an increase to state revenues of \$700,000, an increase to recurring state expenditures of \$1,140,000, and a one-time increase to state expenditures of \$24,000. Based on new information, the fiscal impact for this bill is estimated as follows:

#### **(CORRECTED)**

**Increase State Revenues - \$2,860,000**

**Increase State Expenditures - \$1,546,000 Recurring  
\$24,000 One-Time**

**Increase Local Govt. Revenues - \$60,000**

#### Assumptions:

- The current tobacco tax on non-cigarette tobacco products is 6.6% of the wholesale cost price.
- Total tobacco tax collections were \$124,872,300 for FY05-06.
- Cigarette tax collections for FY05-06 were approximately \$115,462,000.
- Tobacco tax collections for all non-cigarette tobacco products for FY05-06 is estimated to be \$9,410,300 (\$124,872,300 total - \$115,462,000 for cigarettes = \$9,410,300).
- 50% (or \$4,705,150) of non-cigarette tobacco tax collections for FY05-06 were derived from the sale of moist snuff tobacco.
- Taxable wholesale sales for FY05-06 are estimated to be \$71,290,152 (\$4,705,150 estimated collections ÷ 6.6% current rate = \$71,290,152).
- 5.0% annual growth of taxable wholesale sales of moist snuff tobacco under current law.

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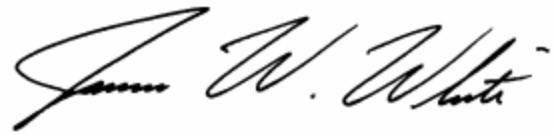
- Taxable wholesale sales are estimated to be \$78,597,400 for FY07-08 under current law ( $[\$71,290,152 \times 105\%] \times 105\% = \$78,597,392$ ).
- Tobacco tax collections for FY07-08 from the sale of moist snuff tobacco is estimated to be \$5,187,400 under current law ( $\$78,597,400 \times 6.6\% = \$5,187,428$ ).
- The average wholesale price for a standard 1.2 ounce canister of moist snuff tobacco is estimated to be \$3.00 before retailer markup and any applicable sales tax.
- The average number of canisters sold in Tennessee is estimated to be 26,200,000 per year ( $\$78,597,400 \text{ wholesale sales} \div \$3.00 \text{ average wholesale price} = 26,199,133 \text{ canisters}$ ).
- The number of ounces sold in Tennessee is estimated to be 31,440,000 per year ( $26,200,000 \text{ canisters} \times 1.2 \text{ ounces per canister} = 31,440,000 \text{ ounces}$ ).
- The proposed excise tax is estimated to generate approximately \$7,860,000 per year ( $31,440,000 \text{ ounces} \times \$0.25 \text{ tax per ounce} = \$7,860,000$ ).
- The increase to tobacco tax revenues is estimated to be \$2,673,000 per year ( $\$7,860,000 - \$5,187,400 = \$2,672,600$ ).
- Current state sales tax rate is 7.0%.
- State and local government sales tax is computed on the final retail sale (including any additional excise tax).
- Incremental state sales tax is estimated to be \$187,000 per year ( $\$2,673,000 \text{ increased excise tax} \times 7.0\% \text{ state rate} = \$187,110$ ).
- The net increase to state revenues is estimated to be \$2,860,000 per year ( $\$2,673,000 \text{ from excise tax} + \$187,000 \text{ from sales tax} = \$2,860,000$ ).
- The local option sales tax rate is estimated to average 2.25%.
- The increase to local government revenues resulting from incremental local option sales tax is estimated to be \$60,000 per year ( $\$2,673,000 \times 2.25\% = \$60,143$ ).
- Quantity demanded remains relatively constant (any decrease of quantity demanded as a result of the proposed tax is offset by an increase of quantity demanded as a result of population growth).
- According to DOR, this bill would require the affixing of tax stamps onto moist snuff canisters much like the tax stamps affixed to packs of cigarettes.
- According to DOR, the cost to the department for tax stamps would be \$29,500 for every 500,000 tax stamps (5.9 cents each).
- The recurring increase to state expenditures for tax stamps is estimated to be \$1,546,000 per year ( $26,200,000 \text{ canisters} \times \$0.059 \text{ tax stamp cost} = \$1,545,800$ ).

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- The one-time increase to state expenditures for computer and software enhancements is estimated to be \$24,000.

**CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, reading "James W. White". The signature is fluid and cursive, with the first name "James" written in a more stylized, connected manner to the middle initial "W." and the last name "White".

James W. White, Executive Director